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Internal audit and oversight

UNDP: Report on internal audit and investigations

Summary

The present report provides information on the activities of the Office of Audit and Investigations (OAI) for the year ended 31 December 2011. As requested by the Executive Board in decisions 2011/22 and 2011/23, this report contains information on: (a) experience gained on joint audits, (b) cases of fraud and action taken in cases of misconduct, and (c) internal audit reports disclosed. As in the past, the management response to this report is presented separately (per decision 2006/13), and the annual report of the Audit Advisory Committee is appended to this report (per DP/2008/16/Rev.1).

Elements of a decision

The Executive Board may wish to: (a) take note of the present report; (b) express its continuing support for the strengthening of the internal audit and investigation functions of UNDP; (c) acknowledge and support the engagement of OAI in initiating and coordinating joint audits of multi-partner trust funds, Delivering as One programmes, and other joint activities; and (d) take note of the annual report of the Audit Advisory Committee.

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Annexes (available on the Executive Board web page)

1. Audit reports issued in 2011
2. Audit reports disclosed to Member States during 2011
3. Recommendations unresolved for 18 months or more

Appendix (available on the Executive Board web page)

Annual report of the Audit Advisory Committee for the calendar year 2011

Introduction

1. The UNDP Office of Audit and Investigations submits to the Executive Board its annual report on internal audit and investigation activities for the year ended 31 December 2011.

2. As requested by the Board in its decision 2011/22, this report contains information on: (a) experience gained on joint audits, and (b) cases of fraud and action taken in cases of misconduct. Also, as requested in decision 2011/23, this report contains information on internal audit reports that have been disclosed. Acknowledging the support expressed last year by the Board to enhance audit and investigative capacities of OAI, this report also provides detailed information on OAI staffing and budget. As in the past, the management response to this report is presented separately (per decision 2006/13) and the annual report of the Audit Advisory Committee is appended to this report (per DP/2008/16/Rev.1).

I. Assurance in UNDP

Mandate of the Office of Audit and Investigations

3. The UNDP financial regulations and rules provide that OAI "shall be responsible for the internal audit of UNDP. It shall conduct independent, objective assurance and advisory activities in conformity with the International Standards for the Professional Practice of Internal Auditing (Standards). It shall evaluate and contribute to the improvement of governance, risk management and control processes, and report thereon." They further stipulate that OAI "shall exercise operational independence in the performance of its duties." Lastly, OAI "shall be responsible for assessing and investigating into allegations of fraud and corruption committed by UNDP personnel or committed by others to the detriment of UNDP." The internal audit function's purpose, authority and responsibility are further defined in the charter of the OAI approved by the Administrator.

4. In accordance with the Standards, OAI hereby confirms to the Board that it has enjoyed organizational independence. OAI has been free from interference in determining its audit scope, performing its work and communicating its results.

5. To ensure its continuing effectiveness in carrying out its mandate, OAI maintains a quality assurance and improvement programme for both the audit and investigation functions. This programme includes ongoing and periodic quality assessments. In 2009, OAI was independently confirmed to be in general conformance with the standards and code of ethics of the Institute of Internal Auditors as well as with generally accepted principles and standards for investigations in international organizations. Future external quality assessments for audit and investigations will be performed in 2012 and 2014.

6. Throughout 2011, OAI received strong support from UNDP senior management. As an observer, the Director participated in the meetings of the Organizational Performance Group, which provided the Director an opportunity to give advice on control and accountability aspects of new policies and to comment on any emerging potential risk to UNDP.

7. To enhance the awareness of Member States, donors and other UNDP stakeholders about the UNDP oversight system, as well as to improve cooperation with counterparts in other organizations and, where appropriate, share knowledge and lessons learned, OAI continued to participate in meetings with Member States and with non-Member-State donors.

Independent external oversight

8. The Audit Advisory Committee continued to provide advice to promote the effectiveness of internal audit and investigation functions of UNDP. In 2011, the Committee reviewed the OAI annual work plan, three-year strategy, budget, quarterly progress reports, annual report and selected audit reports.

9. The United Nations Board of Auditors (UNDP external auditors) also monitored the actions taken by OAI to implement the Board of Auditors recommendations aimed at improving OAI operations. The external auditors continued to rely on the OAI review process for third-party audits of projects implemented by non-governmental organizations and national governments (NGO/NIM projects).

Coordination within the United Nations system

10. As agreed during the 2010 Meeting of Representatives of Internal Audit Services of the United Nations Organizations and Multilateral Financial Institutions, OAI developed a concept paper for jointly auditing Delivering as One programmes. This led to a "Framework for Auditing as One" being signed by the internal audit services of 10 participating organizations in September 2011. The framework provides the basis for a unified internal audit approach for auditing these programmes. It aims at more coherent governance, enhanced management and increased effectiveness in conducting joint audits. As agreed, OAI will issue all audit-related correspondence, be the custodian of audit working papers, and serve as repository of audit recommendations. The first joint audit is taking place in 2012.

11. In March 2011, OAI co-organized the first international investigators course. It was held at the International Anti-corruption Academy in Austria, and attended by staff from more than 10 investigation offices across the United Nations system. In May 2011 OAI jointly coordinated the first annual meeting of heads of United Nations investigation offices. OAI also served in the organizing secretariat of the Conference of International Investigators.

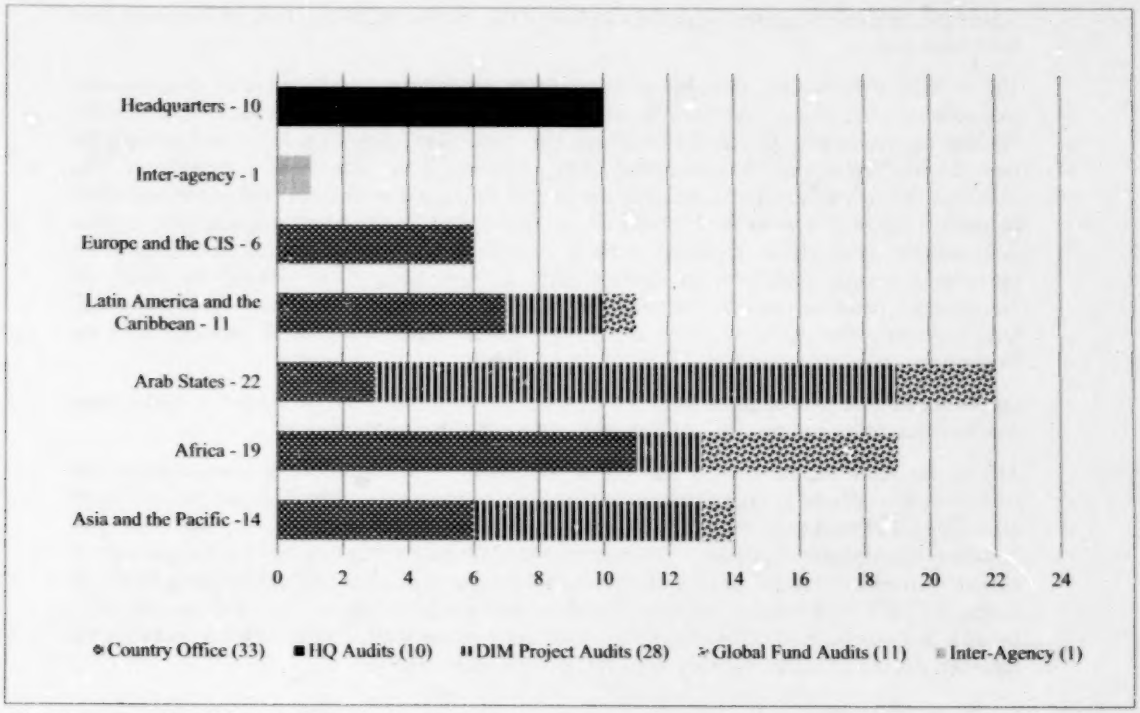
Basis for providing independent assurance to the Administrator

12. To achieve the goal of providing assurance on governance, risk management and control systems, OAI audits cover an appropriate mix of business units, functions and activities at Headquarters, regional and country levels, including grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (the Global Fund) and directly implemented (DIM) projects.

13. In 2011, OAI issued 83 audit reports: 10 Headquarters audits, 1 inter-agency audit, 33 country office audits, 11 Global Fund audits and 28 DIM project audits (see Annex 1). The 10 Headquarters audits involved 4 corporate matters, 4 Headquarters business units, the United Nations Volunteers Programme and a consolidated report pertaining to Global Fund grants. The inter-agency audit was conducted jointly with UNFPA and the United Nations Children's Fund (UNICEF). The 33 country office audits consisted of 30 full-scope office audits, 1 follow-up office audit, 1 special review of an NGO/NIM project, and 1 procurement audit (see Figure 1). Three planned audits were cancelled due to security reasons. This, however, did not affect the overall assurance provided to the Administrator.

14. Since most of the audit reports issued in 2011 covered operations and activities of UNDP offices during 2010, the audit outcomes generally reflect the status of operations in 2010. The 72 audits at the country level (33 country office audits, 11 Global Fund audits, 28 DIM project audits), as well as the audit of a regional centre, covered about $2 billion (42 per cent) of the $4.9 billion of UNDP 2010 field-level expenditures, as recorded in the UNDP enterprise resource planning system, Atlas. An additional $2 billion in expenditures were covered by audits of NGO/NIM projects. Altogether, audits of Headquarters, country offices, Global Fund grants, DIM projects and NGO/NIM projects well supplemented the other oversight mechanisms from which the Administrator and the Executive Board derive assurance on the efficient use of UNDP resources, and the effectiveness and adequacy of governance, risk management and internal control processes.

Figure 1. Number and type of audit reports issued in 2011



CIS = Commonwealth of Independent States

II. Disclosure of internal audit reports

15. Following the Board decision 2011/23 authorizing the Administrator to disclose to donor inter-governmental organizations and the Global Fund internal audit reports pertaining to a given project in which the said donor is financially contributing, OAI updated its standard operating procedures for handling disclosure requests. These procedures ensure that all such requests are in full compliance with relevant Board decisions. OAI also signed an agreement with the Global Fund, specifying the conditions and modalities of disclosure.

16. Pursuant to decision 2011/23, UNDP developed a web-based system to enable Member States and donor inter-governmental organizations to view internal audit reports via a secure remote access system. The system requires the viewer to download and install software that will prevent the copying, saving, forwarding and printing of the reports. While the system has been successfully tested in some cases, a number of Member States encountered technical problems as their information technology (IT) security policies require special permission for software installation. Tests are ongoing and OAI is discussing technical aspects with counterparts to ensure a smooth remote access in 2012.

17. To also facilitate the disclosure process, a new OAI page on the UNDP public website was launched in December 2011. The page contains lists of all the reports issued since the adoption of decision 2008/37. OAI will update this list every month. Based on this list, Members States may determine to which audit reports they wish to request confidential access, either on site or through the secure remote access system.

18. In 2011, at the request of the Governments of Canada, Germany, the Netherlands, Norway, South Sudan, Sweden, United Kingdom and United States, and of the Global Fund, UNDP granted access to a total of 35 reports. Since the adoption of the decision in 2008, a total of 74 reports have been disclosed.

19. As in prior years, OAI, through the Board secretariat, informed the Board of all these requests immediately after receipt and prior to any disclosure. Upon receipt of a request, OAI verified whether the reason and purpose for reviewing the report were adequately stated, and whether the request contained an explicit confirmation of the commitment to confidentiality. In addition, OAI informed the Governments concerned of the request through a letter addressed to the respective permanent representative to the United Nations. Governments were given adequate time to view and comment on the report. Eight out of the 35 Governments concerned availed themselves of the opportunity to read the report on OAI premises in New York. After viewing the report, no Government raised an objection to disclosing it to the requesting Government. In all instances, OAI kept the Audit Advisory Committee fully informed during its periodic meetings with the Committee.

20. In accordance with decision 2011/23, OAI hereby confirms to the Board that, in 2011, there was no request received from any organization not covered by this decision.

21. At the 2011 second regular session of the Board, the Administrator re-emphasized the commitment of UNDP to organizational transparency and announced her objective "to see UNDP disclosing its internal audit reports on its website, while noting that confidentiality may need to be protected in certain circumstances." Thereafter OAI developed a plan to achieve full disclosure, in consultation with the Audit Advisory Committee. This plan was informally presented to the Board during its 2012 first regular session. UNDP is suggesting taking an "incremental approach" towards full disclosure. For more details, please refer to the joint UNDP, UNFPA and UNOPS report on disclosure of internal audit reports (DP-FPA-OPS/2012/1).

III. Risk-based audit planning

22. The 2011 OAI audit plan remains risk based. At the Headquarters level, OAI continues to conduct customized risk assessments to identify auditable units and prioritize areas to audit. This approach will enable OAI to cover all the Headquarters business units within a five-year audit cycle. OAI expects that all major units and functions would be audited by the end of 2012. A risk assessment of the Bureau for Development Policy was done in 2011.

23. At the country-office level, OAI conducts the audit risk assessment using a standard risk assessment model. The model uses both quantitative and qualitative factors and involves participation of all regional bureaux in assessing country offices under their purview for some qualitative factors. The model is updated annually for relevance and appropriateness. At the programme level, a number of Global Fund grants are managed under the "additional safeguard policy", which requires an annual financial audit. For the rest of the Global Fund grants, OAI conducts a risk assessment using a model patterned after the country-office audit risk assessment model. At the project level, OAI uses a risk assessment model consistent with the models for assessing country offices and Global Fund grants, but the process is automated through the Comprehensive Audit and Recommendations Database System (CARDS).

24. In all instances, the final selection of audits is done after consultation with the relevant bureaux as well as with the United Nations Board of Auditors. The objective is to optimize audit coverage. Concerns expressed by senior management, donors or programme countries are also considered in the preparation of the audit plan, which is reviewed by the Audit Advisory Committee prior to approval by the Administrator.

IV. Staffing and budget

On staffing

25. At 31 December 2011, there were 68 approved posts, including 2 newly established audit posts to ensure adequate audit coverage and provide reasonable assurance on the use of funds for UNDP activities in Afghanistan, and 4 posts dedicated to the audit and investigation of Global Fund grants. Of the 68 posts, 55 posts were encumbered and 11 were vacant, and 2 audit posts were frozen pending abolishment in 2012 in view of UNDP-wide budgetary constraints. The abolishment of posts was achieved through structural adjustments made effective on 1 January 2012. These involved merging regional audit centres and readjusting the distribution of the audit portfolio among the OAI audit units.

26. Of the 11 vacant positions, 9 were for audit and 2 for investigations. The vacancies were due to promotions, lateral movements and resignations. Out of the 11 vacancies, 6 should be filled during the first quarter of 2012. Recruitment is ongoing for the rest of the vacant posts. The average time to fill a vacancy in OAI is seven months.

27. In line with decision 2011/22, the Board approved two additional investigations posts for the biennial support budget 2012-2013 in order to address the increase in the number and complexity of complaints and investigations.

On budget

28. In 2011, OAI had an approved overall budget of $13.2 million, with $2.7 million (21 per cent) for the investigation function. This includes a one-time allocation of $0.3 million to enable OAI to undertake the highest priority investigations, those involving the greatest reputational risk for UNDP (see Figure 2).

29. Of the total budget, 77 per cent was secured from regular resources and the balance from extra-budgetary resources. In addition, OAI received $1.0 million to cover audit and investigations activities relating to Global Fund projects. Pursuant to decision 2011/22, UNDP management allocated additional resources to OAI for the biennial budget 2012-2013. Figure 2 below shows a comparison of OAI resources in 2011 and 2012.

Figure 2. OAI resources level in 2011 and 2012

Function	2011		2012	
	Authorized posts	Budget (in $ million)	Authorized posts	Budget (in $ million)
Audit	46	8.7	45(a)	8.4
Investigations	9	2.7	11(b)	2.8
Afghanistan audit	2	0.1	2	0.5
Global Fund audit and investigations	4	1.0	4	1.2
OAI management and support	7	1.6	7	1.4
Audit Advisory Committee	0	0.1	0	0.1
Total	**68**	**14.2**	**69**	**14.4**

(a) Includes one fully funded Junior Professional Officer
(b) Includes two newly established, Board-approved posts

V. Significant internal audit results

A. Headquarters audits

30. In 2011, OAI issued 10 audit reports pertaining to Headquarters business units and other corporate matters. These involved: (i) Human Development Report Office; (ii) Special Unit for South-South Cooperation; (iii) Regional Bureau for Africa (follow-up audit); (iv) Panama Regional Centre; (v) administrative agent functions for the Peacebuilding Fund; (vi) management of third-party cost-sharing resources; (vii) write off of inter-agency receivables; (viii) UNDP International Public Sector Accounting Standards (IPSAS) project; (ix) United Nations Volunteers Programme; and (x) a consolidated report on audits of sub-recipients of grants from the Global Fund managed by UNDP as the principal recipient.

31. These audits resulted in 86 recommendations, of which 49 (or 57 per cent) were ranked high priority. Among these 86 recommendations, 5 had corporate-wide impact. These included clearance requirements for contribution agreements and having a corporate repository for cost-sharing agreements, as well as areas where priority attention by management is required for successfully transitioning to IPSAS.

32. The audit report on management of third-party cost-sharing resources was brought to the attention of the Organizational Performance Group to ensure a corporate commitment to address the issues raised by OAI.

B. Inter-agency audits and experience gained thereon

33. In 2010, OAI, together with the internal audit services of UNFPA and UNICEF, audited the implementation of the Harmonized Approach to Cash Transfers (HACT) in Malawi. The report was issued in 2011. This joint audit was led by the UNFPA Division for Oversight Services. Additional joint audits of HACT implementation were conducted in 2011 in Indonesia, Pakistan and at the corporate level, with reports to be issued in 2012.

34. So far, OAI has participated in five joint HACT audits. Experience has shown that clear assignment of responsibilities and authorities is critical for successful planning, fieldwork and reporting of any joint audit. Developing harmonized or joint audit tools, including agreed upon report templates, would make the audits more convenient and efficient. Scheduling the fieldwork has been a challenge due to conflicting priorities among the participating internal audit services. Common audit issues in the implementation of HACT will be analysed and included in future reports to the Board, as appropriate.

35. With regard to the auditing of Delivering as One programmes, a pilot audit is planned to be conducted in Tanzania in the first quarter of 2012. To help focus the audit scope and formulate an appropriate audit approach, OAI conducted a risk assessment mission in 2011. The results were shared with the "auditing as one" steering committee. The internal audit services of seven agencies (Food and Agriculture Organization, UNDP, United Nations Educational, Scientific and Cultural Organization, UNFPA, UNICEF, United Nations Industrial Development Organization and World Food Programme) are participating in the joint audit, while three other internal audit services (International Labour Organization, Office of Internal Oversight Services of the United Nations Secretariat, and World Health Organization) will support the joint audit without directly participating in it.

36. As more experience is gained on these joint audits, OAI will keep the Board duly informed in future reports.

C. Country office audits

37. A full-scope audit of a country office generally covers activities related to governance and strategic management, United Nations system coordination (development activities, resident

coordinator office, the role of UNDP in the One United Nations initiative and HACT). These internal audits also cover programme activities (programme management, partnerships and resource mobilization, project management), as well as operations (human resources, finance, procurement, information and communications technology, asset management, and general administration and safety and urity).

38. As part of the OAI annual work plan for 2011 all country office audits included cross-cutting themes which were reviewed extensively based on standardized audit procedures. These themes were human resources and IPSAS preparedness.

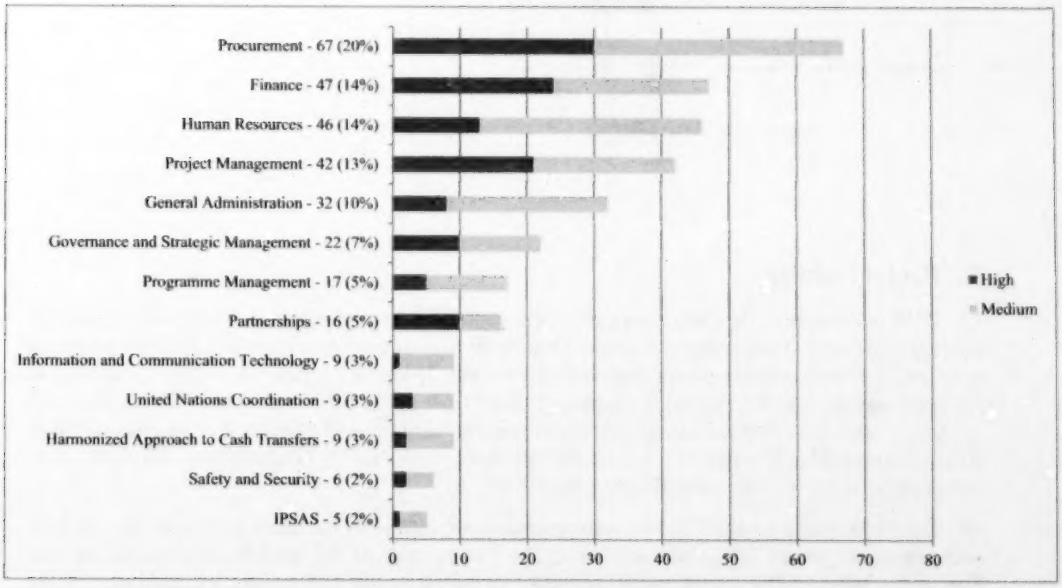
39. The 33 country office audit reports in 2011 comprised 30 full-scope country office audits, 1 follow-up country office audit, 1 procurement audit and 1 special audit. Altogether these audits resulted in 327 recommendations, mostly in the areas of procurement, finance, human resources and project management, which accounted for 61 per cent of the total recommendations (see Figure 3).

40. An in-depth analysis of the audit issues disclosed some recurrence in a number of audited areas. These are weaknesses in: project monitoring and oversight (15 offices); asset management (e.g. physical inventory of assets not performed, non-capital assets not recorded in Atlas and obsolete assets not properly disposed of) (13 offices); processing of payment (11 offices); travel management (e.g. travel claims not completed and travel claims not supported) (10 offices); leave and attendance records (8 offices); management of special service agreements (7 offices); recruitment process (7 offices); vendor management (6 offices); use of account codes (6 offices); and use of e-procurement (5 offices).

41. At 31 December 2011, 127 of the 327 recommendations made in 2011 had been fully implemented within the same year, leaving 200 still outstanding, of which 55 pertained to reports issued in December.

Figure 3. Distribution and prioritization of all country-office audit recommendations in 2011 reports

(Total recommendations: 327)



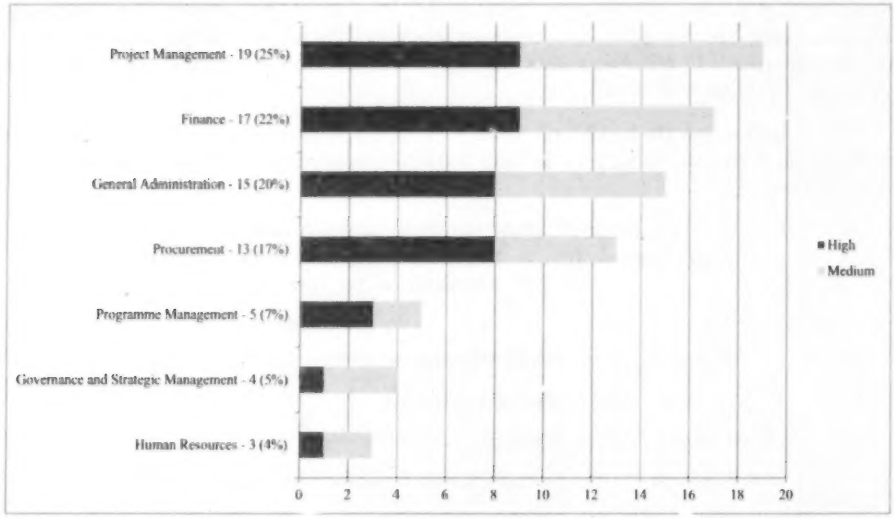
D. Global Fund audits

42. Eleven audit reports were issued in 2011 pertaining to Global Fund grants managed by UNDP as the principal recipient, specifically in Africa (5 offices), Arab States (4 offices), Latin America and the Caribbean (1 office), and Asia and the Pacific (1 office).

43. These 11 audits resulted in 76 recommendations, the majority in the areas of project management, finance and general administration, which accounted for 67 per cent of the total recommendations (see Figure 4). Most of the weaknesses noted were in monitoring and evaluation of project activities and in the management of sub-recipients with regard to their stock and assets.

44. At 31 December 2011, 34 of the 76 recommendations made in 2011 had been fully implemented within the same year, leaving 42 outstanding, of which 17 pertained to reports just issued in December.

Figure 4. Distribution and prioritization of all Global Fund internal audit recommendations in 2011 reports
(Total recommendations: 76)



E. Project audits

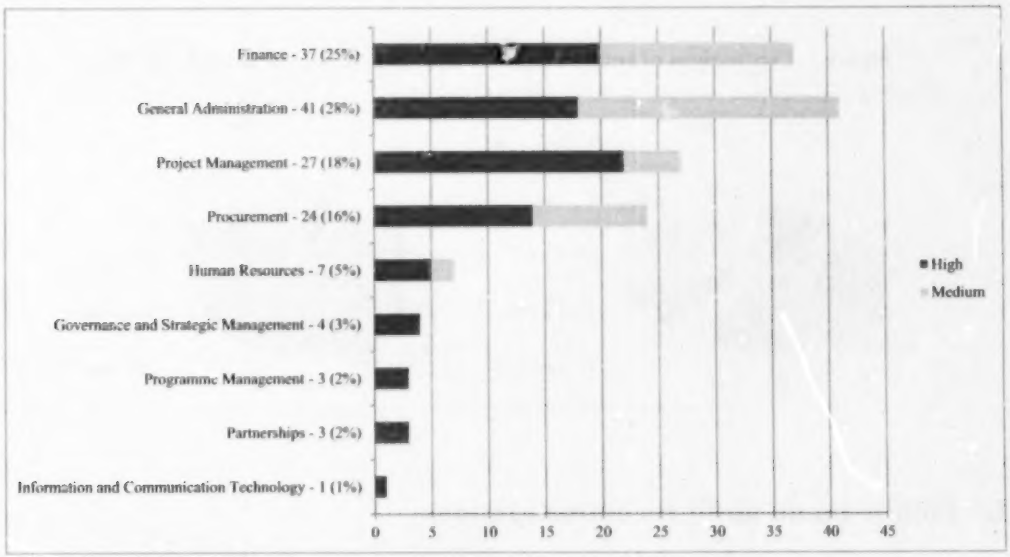
45. DIM projects may be audited as part of the audit of a country office or other business unit or audited separately. Twenty-eight separate DIM audit reports were issued in 2011. These pertained to 56 projects with audited expenditure of $426 million. Thirty of the projects (54 per cent) were in the Asia and the Pacific region (5 countries); 19 (34 per cent) were in the Arab States region (3 countries); and the rest were in Latin America and the Caribbean (4 projects in 3 countries) and in Africa (3 projects in 2 countries). Except for one audit conducted by OAI auditors, the DIM audits were conducted by private audit firms on behalf of OAI.

46. The DIM audits resulted in 147 recommendations, mostly in the areas of finance and general administration, which altogether accounted for 53 per cent of the total recommendations (see Figure 5). Most of the issues noted pertained to overstatement of project expenditures in the combined delivery report, unsupported expenditures, payments for transportation services exceeding the financial ceilings stipulated in the long-term agreements with vendors, and expenditures incorrectly charged to another project. There were also instances of lack of project

asset registers, incomplete project records and unverified physical existence of project assets. Of the total of $426 million audited DIM expenditures, $171 million (or 40 per cent) were qualified. Most of this involved a project in Afghanistan which represented 93 per cent of all qualified expenditures.

47. At 31 December 2011, 46 of the 147 recommendations made in 2011 had been fully implemented within the same year, leaving 101 outstanding recommendations, of which 11 pertained to reports just issued in December. This indicated that slower progress is being made on the implementation of recommendations concerning DIM projects. OAI will closely monitor this situation in 2012.

Figure 5. Distribution and prioritization of all DIM audit recommendations in 2011 reports
(Total recommendations: 147)



VI. Audit ratings

48. Based on the results of an audit, OAI generally assigns an overall audit rating, in terms of its assessment of the governance, risk management and control processes. Exceptionally, special audits, follow-up audits and consolidated reports do not provide an overall audit rating, as these are focused on specific areas with restricted audit objectives. Thus, out of 84 reports, 9 did not contain an overall rating. Of the remaining reports, those that pertained to DIM projects had more "satisfactory" ratings (78 per cent) than those relating to country offices and Global Fund grants (25 per cent) (see Figures 6 and 7).

49. The majority of the audit ratings for the past two years for audits of country offices and Global Funds grants were in the "partially satisfactory" category; the share of "satisfactory" and "unsatisfactory" remains reasonably distributed in 2011. The increase in the percentage of "satisfactory" ratings for DIM project audits is related to the significant expansion of the number of these audits (from 10 in 2010 to 28 in 2011), with a concentration in two countries of 14 audits, all of which were assessed as "satisfactory" (see Figures 6 and 7).

Figure 6. Comparison of audit ratings for Headquarters, country offices and Global Fund audits in 2010 and 2011

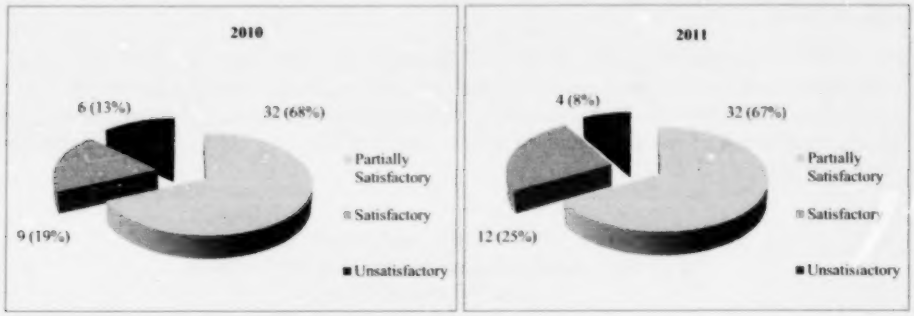
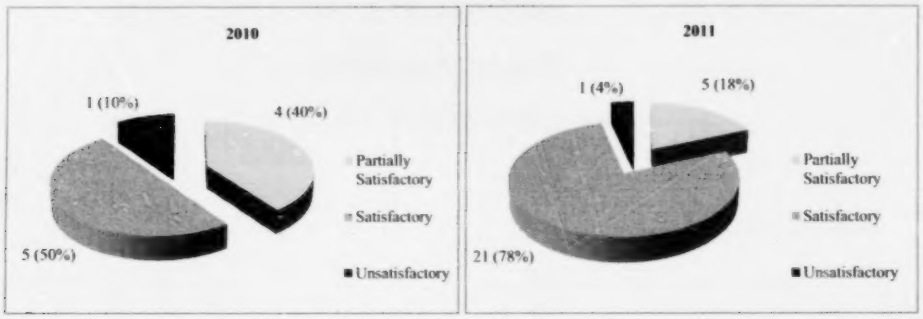


Figure 7. Comparison of audit ratings for DIM project audits in 2010 and 2011



VII. Follow-up on audit recommendations

50. At 31 December 2011, the overall implementation rate was 92.7 per cent. This covers all reports issued from 1 January 2007 to 30 November 2011, taking into account that offices have a one-month grace period after the report issue date for purposes of reporting on the implementation action taken. There was a substantial improvement noted compared to 31 December 2010, where the implementation rate was 87.1 per cent. (This was for reports from 1 January 2006 to 30 November 2010.)

51. At the end of 2011, 28 recommendations had been outstanding for more than 18 months without being fully implemented. This was compared to 41 reported in 2010 (see Annex 3). Of the 41 reported at the end of 2010, 34 (or 83 per cent) were implemented in 2011. An additional 21 recommendations reached the eighteenth-month mark on 31 December 2011. These 28 recommendations comprised 0.6 per cent of the total of 4,347 recommendations issued since 2007. (The oldest recommendation emanated from a 2007 audit, and needed some action from the host government).

52. Of the 28 recommendations, 15 (or 54 per cent) were ranked high priority. Twenty-four recommendations concern UNDP exclusively, and four are shared with UNFPA and UNICEF as they pertain to an inter-agency audit (related to HACT). The reasons for the delayed implementation for the 24 recommendations were noted to be: inadequate action by the offices concerned (54 per cent); dependence on host Governments (42 per cent); and lack of resources (4 per cent).

VIII. Advisory services

53. OAI continued to provide advice to all levels of management at Headquarters, regional centres and country offices. This advice covered a range of subjects, including contract administration, donor relations and reporting, human-resources recruitment processes, asset management and the Global Fund. OAI also regularly reviewed clauses in contribution and grant agreements with donors. In 2011, OAI conducted a special review and provided advice relating to the policies, procedures and practices regarding government contributions towards local costs.

54. To share lessons learned from audits and enhance UNDP staff appreciation of audit findings and recommendations, OAI made presentations: to the HIV/AIDS Group; to UNDP offices in the Latin American and the Caribbean region; at the global management meeting of the Regional Bureau for Africa; at the operations management workshop of the Regional Bureau for Europe and the Commonwealth of Independent States; and to the Global Shared Services Centre. In addition, OAI held eight webinars to provide clarifications and updates to country offices about the NGO/NIM audit exercise.

IX. Internal audit services for UN-Women

55. Based on an agreement between the Executive Director of UN-Women and OAI, OAI continued to provide internal audit services to UN-Women in accordance with the financial regulations and rules of UN-Women.

X. Review of audits of projects executed by non-governmental organizations and/or national governments

56. As a result of the OAI audit risk assessment, 1,302 NGO/NIM awards were selected for audit in 2011 by audit firms or national audit institutions. This represented 80 per cent of the $2.6 billion in expenditures incurred for NGO/NIM projects for fiscal year 2010. These audits are managed directly by country offices. OAI received 1,511 audit reports from 120 country offices. These pertained to 1,291 NGO/NIM awards covering a total of $2.0 billion in expenditures or 99 per cent of the expenditures planned to be audited. One award may comprise several projects, and one audit report may pertain to more than one project. The audit reports were generally submitted on time. The further improvement in the timeliness of reports as compared to previous years was due to concerted efforts by OAI, the Office of Finance and Administration of the Bureau of Management, the regional bureaux and the country offices concerned.

OAI review results

57. Of the 1,511 reports received, OAI selected 661 for in-depth review. This reviewing covered 82 per cent of the audited expenditures. The sample included all reports with modified opinions. OAI reviews four aspects of the NGO/NIM audit reports:

(i) Audit opinion and net financial impact: OAI measures the net financial impact of audit qualifications as a percentage of the reported project expenditure.

(ii) Audit outcome: OAI reviews the audit findings and measures the corresponding risks for overall project implementation.

(iii) Audit scope: OAI reviews the adequacy of audit coverage vis-à-vis the required audit terms of reference.

(iv) Audit administration: OAI reviews how efficiently and effectively the audit was administered by the country office.

58. For the majority of cases, OAI rated the overall quality and outcome of the NGO/NIM audit reports to be "satisfactory" (see Figure 8). OAI summarized the review results in "review letters" sent to the offices. The letters drew attention to areas requiring improvement.

Figure 8. Results of OAI assessment of the quality of NGO/NIM audit reports

	Rating of NGO/NIM Audit Scope			
	FY2010		FY2009	
	Number of COs	%	Number of COs	%
Satisfactory	83	70%	77	63%
Partially Satisfactory	26	22%	33	26%
Unsatisfactory	10	8%	14	11%
Total COs	**119**		**124**	

COs = country offices

Key NGO/NIM audit issues and actions taken thereon

59. The NGO/NIM audit reports contained 2,586 issues, the majority (71 per cent) of which were ranked "medium" priority. Most of the issues pertained to financial management and record-keeping systems and controls. Over the last two audit cycles, however, there was a decrease in issues in the area of financial management, management and use of equipment/inventory, and record-keeping systems and controls. The total number of issues also decreased in 2011 as compared to 2010.

60. OAI also monitors the actions that country offices plan to take or have already implemented to address the audit recommendations arising from the NGO/NIM audits. Of the 2,586 audit issues, 86 per cent were adequately addressed in the country-office action plans.

Audit opinions and net financial impact

61. The NGO/NIM auditors found the project financial expenditures to be fairly presented in the majority of cases and expressed an "unqualified" opinion on $1.9 billion (93 per cent) of the total $2.0 billion of audited expenditures. OAI analysed all the reports with modified opinions (namely, qualified opinion, adverse opinion and disclaimer of opinion), and quantified the corresponding net financial impact to be $40.5 million, which is equivalent to 2 per cent of the total audited expenditures.

62. This net financial impact of $40.5 million in audit qualifications is mainly the result of an exceptional loss of supporting documentation in Egypt, where $27.3 million in project expenditures could not be audited due to the destruction and loss of documents following the political crisis. Without these extraordinary circumstances, the net financial impact arising from the audit of NGO/NIM projects would have been $13.3 million, equivalent to 0.7 per cent of the total audited expenditures. For fiscal year 2009, the net financial impact was $27.9 million or 1.6 per cent of the total expenditures.

XI. Investigations

Caseload

63. During 2011, OAI opened 201 new cases. This was, and for the first time in years, a decrease in the number of complaints as compared to the previous year. OAI also reopened several cases from prior years due to new information or events and made adjustments to its caseload statistics due to the transition to a new case-management system. This resulted in an additional 17 cases being opened during the year. Together with 99 open cases carried over from 2010, this constituted a total caseload of 317 in 2011.

64. Of the 317 cases, 210 were finalized by OAI in 2011. A total of 151 cases (48 per cent) were closed after an assessment determined that a formal investigation by OAI was not warranted, and 45 more cases (14 per cent) were finalized after a full investigation. Of those investigated, 22 (or 49 per cent) resulted in an investigation report establishing evidence of misconduct. Twenty-three cases (51 per cent) were found to be unsubstantiated. Ten cases were referred to other offices within UNDP and four were referred to other organizations for investigation or other necessary action. At the end of 2011, 107 cases were carried over to 2012 (see Figure 9).

Figure 9. Caseload in 2011

Case Load	
Carry-over as of 1 January 2010	**99**
Intake during the year	201
Reopened cases and adjustments	17
Total cases during the year	**317**
Closed (from cases carried over)	152
Closed (from intake)	**58**
Total closed	**210**
Carried forward as of 31 December 2011	**107**

Processing of cases, especially misconduct

65. When an investigation substantiates allegations of fraud or other misconduct, OAI submits an investigation report to the Legal Support Office for consideration of disciplinary or administrative action against the staff or other personnel involved, and for recovery of funds or assets. When an investigation reveals weaknesses in internal controls, OAI issues a management letter to the office concerned, recommending how to strengthen controls. In 2011, OAI issued five management letters at the conclusion of investigations. Figure 10 shows how the cases were closed in 2011.

66. Cases involving potentially criminal misconduct may also be referred to national law-enforcement authorities for criminal investigation and prosecution, along with recovery of funds through criminal restitution. In 2011, OAI recommended the referral of seven cases to national authorities for criminal investigation and compiled all relevant evidence to support the prosecution of appropriate cases.

67. At year end, 43 cases were still undergoing preliminary assessment, while 64 cases were undergoing investigation.

Figure 10. Disposition of cases in 2011

Total cases closed during the year 2011	**210**
After assessment	
- Closed, investigation not warranted	151
- Referred to other offices within UNDP	10
- Referred to other organizations	4
After investigation	
- Closed (not substantiated)	23
- Submitted to Legal Support Office	22
- Submitted to Ethics Office (retaliation cases)	0
- Management letter issued[1]	5

[1] In some cases, both a management letter and an investigation report were issued.

Types of complaints or allegations

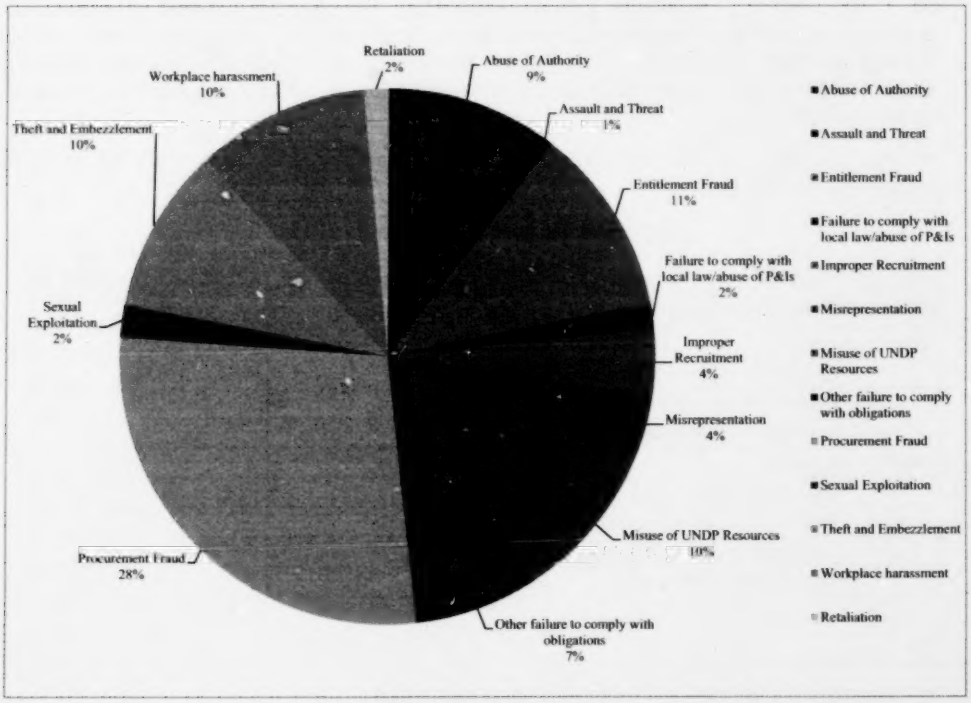
68. Complaints relating to financial irregularities—such as procurement fraud, theft and embezzlement, misuse of UNDP resources and entitlements fraud—continued to be the largest category of cases, constituting 59 per cent of the total number of cases handled by OAI in 2011. This is almost identical to 2010, when financial irregularities constituted 60 per cent of the total number of cases received. However, several of the complaints received in 2011 involved complex schemes of fraud and/or large monetary loss, including, for example, one case in which the loss was confirmed to be at least $2.3 million.

69. Among the allegations not relating to financial irregularities, workplace harassment and abuse of authority were the two largest categories of complaints, together constituting 19 per cent of OAI cases in 2011. This indicated a marked increase over 2010, when allegations relating to workplace harassment and abuse of authority constituted 13 per cent of the cases.

70. In 2011 the third largest category of allegations not relating to financial irregularities was other failure to comply with obligations (8 per cent), followed by misrepresentation (4 per cent) and improper recruitment (4 per cent). The other failure to comply with obligations category encompasses any other failure by a staff member to comply with his or her obligations under the Charter of the United Nations, the Staff Regulations and Staff Rules or other relevant administrative instructions, or to observe the standards of conduct expected of an international civil servant.

71. Allegations of retaliation against whistleblowers comprised 2 per cent of the complaints received in 2011 (a total of 3 complaints). Two of these cases were finalized in 2011, both were unsubstantiated; one case is still under assessment. Other categories (including sexual exploitation, failure to comply with local laws, abuse of privileges and immunities, assaults and threats) comprised the remaining 5 per cent of complaints in 2011 (see Figure 11).

Figure 11. Types of complaints received in 2011



Disciplinary measures and other sanctions taken

72. In most substantiated cases, investigations conducted by OAI resulted in disciplinary or administrative measures, including action to ensure recovery of funds and, in cases of possible criminal behaviour, transmittal to the United Nations Office of Legal Affairs for further referral to national law-enforcement authorities. The 2011 "Annual report of the Administrator on disciplinary measures and other actions taken in response to fraud, corruption and other wrongdoing" provides more details.

Strengthening of investigations capacity

73. In 2011, OAI undertook a number of measures, described below, to further enhance its capacity to undertake investigations and to exchange fraud intelligence with other investigative units so as to better identify and deal with wrongdoing that may impact UNDP.

- A new hotline reporting system became operational at the start of 2011, providing UNDP with greater "reach" into the 177 countries where UNDP is on the ground. The new system provides: 24/7 toll-free reporting by telephone to trained call screeners; the ability to patch in interpreters; web-reporting in English, Spanish and French; and the ability for callers to remain anonymous, while also being able to provide further information at a later time, through the use of a reference code.
- A new investigations case-management system was implemented in order to more comprehensively document action taken to investigate allegations, to allow more meaningful analysis of case data, and to draw from investigations lessons that may be relevant to UNDP risk-management processes.
- An Investigations Advisor dedicated to Global Fund cases was recruited to ensure that alleged wrongdoing affecting Global Fund grants managed by UNDP is addressed quickly and effectively.
- Increased efforts to collaborate with the investigation offices of other international organizations were made. The purpose was to more effectively share information on fraud risks and to more efficiently investigate fraud that involved more than one organization. This collaboration with other investigative bodies has been further strengthened through the signing of cooperation agreements with other organizations, including an agreement on the prevention, detection and investigation of fraud and corruption, signed with the Office of the Inspector General of the Global Fund.

74. OAI actively contributed to the development of a number of new policies designed to better prevent, detect and address fraud against UNDP programmes and projects. These policies include the anti-fraud policy (March 2011) and the vendor sanctions policy (November 2011).

75. Pursuant to the revised OAI charter, which expanded the mandate of the OAI investigation function and was approved by the Administrator in December 2010, OAI has assessed and conducted investigations involving contractors, implementing partners and other third parties. As a result of investigations conducted in 2011, OAI expects to submit at least two cases in 2012 for review under the recently established vendor sanctions policy.

76. OAI has also developed a protocol for conducting proactive investigations in high-risk areas susceptible to fraud, corruption and other wrongdoing. Subject to the availability of resources, OAI plans to implement the first proactive investigation in 2012.

77. OAI is in the process of reviewing its investigation guidelines to ensure that cases involving contractors are handled as efficiently as possible. After discussions with the Legal Support Office, it was decided that when allegations against contractors have been substantiated, OAI will provide the reports containing the outcome of an investigation directly to the head of the office concerned. This is now being done.

78. As stated earlier in this report, the Board approved two additional investigations posts for the biennial support budget 2012-2013. With these new positions, expected to be filled within the first four months of 2012, OAI will be in a better position to implement its expanded mandate.

XII. Overall conclusion and framework for the future

79. The results of the various audits as well as the action taken by the offices concerned to address the issues raised by OAI are positive indications of the effectiveness of the governance, risk management and control processes of UNDP. The continuing support of senior management, the Audit Advisory Committee and the Executive Board enables OAI to successfully carry out its mandate.

80. OAI remains ready to meet all the challenges ahead, some of which may emanate from the implementation of the UNDP Agenda for Organizational Change and the organization's commitment to making its internal audit reports available to the public. The three-year OAI strategy approved by the Administrator shall guide OAI in the coming years.